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SUBJECT: RISING CONSUMERISM IN TURKEY

¶1. (SBU) Summary: Recent years have seen a rapid growth in consumerism in Turkey with private consumption and retail sales more than doubling between 2002 and 2006. Credit has helped drive this consumerism trend, as newly-affordable interest rates have increased the use of consumer loans and credit cards twenty-five-fold and five-fold, respectively. And as incomes have risen, the growing number of upper-middle class consumers has driven a retail sector transformation. High-end shopping malls and retailers have blossomed and franchised brands have appeared across Turkey. With the days of economic turmoil and hyperinflation seemingly over, Turkish consumers are likely to continue to spend their way toward Western standards. End Summary.

A Shopping Spree...

¶2. (SBU) After decades of economic uncertainty, the combination of stability, growth and lower inflation in recent years has given rise to an explosion of consumerism as Turks have unleashed pent-up consumer demand. From 2002 to 2006, private consumption, which makes up nearly two-thirds of GDP, increased from \$184 billion in 2002 to \$383 billion in 2006 and retail sales from \$66 billion to approximately \$140 billion. Rising per capita income, from \$2,620 to \$5,305, has also created a growing class of upper-middle class consumers. Although the growth of private consumption has stalled in the first half of 2007, and consumer durable sales fell compared to 2006, this is attributable to higher interest rates starting in June 2006. As the Central Bank begins to cut rates later in 2007 or in 2008, the longer-term trend of booming durable sales is likely to resume.

...On Credit

¶3. (SBU) While economic growth and increasing disposable incomes are the essential elements, credit has also supported the surge of consumerism. Inflation has come down dramatically under the newly-independent Central Bank's tight monetary policy following the 2001 financial crisis. Following a generation of hyper-inflation, nominal interest rates -- still high by international standards -- fell in 2005 and early 2006 to levels at which some consumers can afford to borrow. At the same time, banks changed strategy to target consumers, as banks' earnings from government securities went into a steady decline. The result has been a boom in personal credit as consumers use loans to pay for housing and durable goods and credit cards for everyday purchases. Banking Regulation and Supervision Agency (BRSA) numbers show that from December 2002 to April 2007, consumer loans increased over twenty-five-fold, from less than two billion lira to nearly fifty billion, and credit card use increased over five-fold, from four billion lira to over twenty billion. The number of credit card accounts has also increased from

15.7 million in 2002 to 30.6 million in 2006. In addition to bank-provided consumer credit, retailers are using credit to stimulate sales by selling items with payment in installments. In this way retail companies pass on to customers some of the benefit of their ability to borrow more cheaply than consumers.

Housing Boom

¶4. (SBU) The passage of a mortgage law in February 2007 (due to come into effect in January 2008) will for the first time allow for long term and adjustable-rate mortgages. Aspiring home owners previously had to rely on family borrowing or high-interest relatively short-term home loans, constraining the growth of the housing market. While the recent availability of cheaper credit has already created a housing boom, the new mortgage law is likely to further expand this boom as extended families living under one roof continue to break off into smaller households. TUSIAD, the Turkish Industrialists' and Businessmen's Association, forecasts an increase of households from the present 15 million to 18.5 million by 2010.

Non-performing Loans Under Control

¶5. (SBU) Despite this surge in credit, non-performing loans and credit card debt have not increased disproportionately, according to the BRSA. From December 2002 to April 2007, non-performing consumer loans increased approximately ten-fold to 573 million liras and credit card debt delinquency increased nearly eight-fold to 1.8 billion. Credit card regulations have helped curb debt, as rampant credit card use and debt accumulation led the Turkish parliament to pass a law in February 2006 to restrict the amount of credit card debt consumers could take on. The level of consumer credit in

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Turkey also remains relatively low. Household liabilities are at 10 percent of GDP in Turkey versus an EU-25 average of 61 percent, 15 percent in Poland, 17 percent in Hungary, and 15 percent in the Czech Republic.

New Malls

¶6. (SBU) The retail sector has benefited greatly from the increases in income and credit in Turkey, as retail sales have risen from \$66 billion in 2002 to \$140 billion in 2006. However, as retail sales have boomed, the traditional face of Turkish retail -- open-air markets and small shops -- has lost ground to high-end shopping malls and retail chains owned by companies. While traditional retailers still control about 65 percent of the retail market, modern outlets are increasing their market-share. There were 128 shopping malls in Turkey at the end of 2006; 54 were in Istanbul, including Cevahir, the largest mall in Europe and the second largest in the world. Year-on-year investment in malls increased threefold in 2006 to 770 million euros and press report that an additional 60 to 80 new malls are under construction. Much of the retail boom has occurred in Turkey's principal urban centers of Istanbul, Ankara, and Izmir -- the three account for 70 percent of gross leasable space in malls. However, other urban and industrial areas of Turkey are feeling the retail boom as well, reflecting economic growth and prosperity in "second tier" cities that would have been unthinkable even five years ago. Kahramanmaraş, a provincial capital in southeast Turkey, will be the site of a 624,300 square foot mall. Large, modern malls have opened up at the central Anatolian crossroads town of Afyon. Denizli, a textile center inland from the Aegean region sports a large, modern hypermarket. And the French Carrefour has opened hypermarkets in Mersin, Bursa, Eskisehir and Adana.

¶7. (SBU) Retail chains, such as those in the grocery sector operated by the Turkish conglomerate Koc Group, British Tesco, and Carrefour, have also expanded and continue to expand. Koc's Migros chain -- the leading retailer in Turkey -- has over 500 stores and the

discount BIM chain has over 1600. Sabanci Holding, a leading Turkish conglomerate, plans to open an additional 500 of its Teknosa Cep electronics retail outlets (there are presently 2) by 2010. As Turkey's economic stability and growth continue, corporate retail chains -- including major international names -- are likely to gain more ground against their small-time competition. Ikea has opened in Istanbul and Izmir and is scheduled to open in Ankara in 2008. Rumors also persist of Wal-Mart and BestBuy entering the retail fray in Turkey. The Migros chain was recently put up for sale and may be the opportunity Wal-Mart has been eyeing to enter the Turkish market. All of this is to the detriment of the small-scale shopkeepers. The Chamber of Commerce President in the north-central Anatolian town of Kastamonu complained that small shopkeepers were being squeezed out by chains like Migros and Carrefour.

Starbucks and the Rise of Franchising

¶8. (SBU) Also fueled by rising consumerism, and Turkey's increasing integration with the world economy, brands and franchises have flourished. Of the 800 leading franchised brands in the Turkish market, approximately 200 are foreign, including 50 from the U.S. In addition to assuring the quality of products, brands -- in particular foreign brands -- have gained in popularity because they project the wealth and status of the growing Turkish upper-middle class. No hard numbers exist on the growth of brands and their franchised establishments, but it can be seen from the proliferation around Turkey in the past few years of establishments such as Starbucks, which only opened in Turkey in 2004, and Gloria Jeans Coffee.

¶9. (SBU) Much of the growth of foreign brands and franchise has been confined to wealthier western Turkey, but this is changing. Carrefour is becoming active in eastern Turkey, both through acquisitions and greenfield investments and Ford executives joke that their distributors "guard the southern border." With its growing economy and 72 million people, 65 percent of whom are under 35, Turkey will continue to support the development of local brands and attract the attention of foreign brands. A Foreign Commercial Service report on the franchising market in Turkey estimates the turnover of franchised brands, excluding franchised "dealerships," to increase to \$10 billion by 2010 from the current \$1.5 billion. The growing demand for non-food services, including children's education, training and personal development, and logistics, will also provide an opening for established foreign brands to enter the Turkish market.

¶10. (SBU) Comment: Turkey's growing population and progressive

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urbanization, up to 67 percent today from 60 percent in 1990, will continue to fuel the consumerism trend. Economic speed bumps, such as the mid-2006 drop in the lira's value, can temporarily set back, but cannot derail, this trend. Consumer credit has room to grow in Turkey, but regulators will need to monitor the breakneck pace of expansion in credit. The growth of high-end retail speaks to the growing population of upper-middle class Turks. This growth is likely to be at a more modest pace among working-class Turks. And despite poll data showing increased anti-Americanism, the steady stream of Turks visiting American-affiliated establishments around the country suggests that American brands and franchises stand to benefit from the broader trend.

WILSON